

Edexcel Economics A-level
Unit 4: The Global Economy

Topic 1: Causes and Effects of
Globalisation

1.2 Effects of globalisation

Notes



Impacts of globalisation and global companies on:

Individual countries

There could be trade imbalances between countries. For example, the US runs a large current account deficit with China, who has a large current account surplus.

There could be imbalances and inequalities in consumers' and countries' accesses to health, education and markets.

Within individual countries, there could be income and wealth inequalities if the benefits and costs of globalisation are not evenly spread. This is evident in China, where the population in the rural and urban areas have vastly different levels of income and living standards.

Culture could spread across the globe. Some might say this has weakened culture and that there has been a loss of cultural diversity due to global brands. However, others will argue that the spread of culture has been positive and helped to improve their quality of life.

Governments

Some governments might lose their sovereignty due to the increase in international treaties. Individual states would find it hard to resist the force of them, and if countries become members of organisations, they will have to abide by their rules.

Producers and consumers

Consumers and producers can earn the benefits of specialisation and economies of scale as firms become larger.

Firms operate in a more competitive environment, which encourages them to lower their average costs and become more efficient.

Producers can also make their average costs lower by switching production to places with cheaper labour. The spread of technology has resulted in firms being able to employ the most advanced machines and production methods.



Globalisation leads to a general increase in world GDP, which increases consumer living standards and helps lift people out of absolute poverty. However, it is hard to calculate the proportion of growth which was due to globalisation.

This rise in average consumer incomes could offset some of the lower costs of production for firms. This is especially due to increased demand from China, which has contributed to the increase in price of commodities, and therefore pushed up the price of raw materials.

Some consumers gain more from globalisation than others. Globally, there are fewer people in extreme poverty, but this has not been the case in Sub-Saharan Africa. There could be increased inequality. Oxfam research in 2015 suggested that 1% of the world own more than the rest of the world (more information here <http://www.bbc.co.uk/news/business-30875633>).

Consumers could take advantage of a wider range of goods and services because of the increased availability of goods and services. However, some services might become homogenised, such as hotels.

Workers

Workers can take advantage of job opportunities across the globe, rather than just in their home country.

However, there could be structural unemployment. For example, in the UK after the collapse of the ship building and mining industries, there was a lot of structural unemployment. This is because it was more efficient for manufacturing to occur abroad, so production shifted to lower labour cost nations.

However, it could be argued that countries would have had the change from agriculture to manufacturing to services anyway, and globalisation simply sped it up.

When production shifts to lower labour cost countries, the creation of jobs could be seen as either beneficial or harmful. On one hand, MNCs could be exploiting their labour and providing poor working conditions in, for example, sweatshops. On the other hand, working in a sweatshop might provide a higher, more stable income than any alternatives, such as agriculture.

The environment



Although industrialisation and increased consumer living standards might lead to more pollution through increased production and increased car use, consumers might show more concern towards the environment as their average incomes increase.

Some of the negative impacts on the environment could include deforestation, water scarcity and land degradation.

